

ITEM 1. FINANCIAL STATEMENTS

EDGEWATER TECHNOLOGY, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Per Share Data)

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,444	\$ 15,398
Restricted cash	5,000	-
Accounts receivable, net of allowance of \$150	26,266	22,218
Prepaid expenses and other current assets	2,312	2,075
Total current assets	38,022	39,691
Property and equipment, net	386	409
Intangible assets, net	3,895	5,575
Goodwill	29,983	29,983
Other assets	886	216
Total assets	<u>\$ 73,172</u>	<u>\$ 75,874</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,585	\$ 767
Accrued liabilities	14,444	14,984
Deferred revenue	2,751	2,140
Revolving credit facility	5,000	5,000
Total liabilities	23,780	22,891
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000 shares authorized, no shares issued or outstanding	-	-
Common stock, \$.01 par value; 48,000 shares authorized, 29,736 shares issued as of September 30, 2018 and December 31, 2017, 14,641 and 14,046 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	297	297
Paid-in capital	199,936	202,749
Treasury stock, at cost, 15,096 and 15,690 shares at September 30, 2018 and December 31, 2017, respectively	(93,671)	(98,684)
Accumulated other comprehensive loss	(647)	(582)
Retained deficit	(56,523)	(50,797)
Total stockholders' equity	49,392	52,983
Total liabilities and stockholders' equity	<u>\$ 73,172</u>	<u>\$ 75,874</u>

See notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)

EDGEWATER TECHNOLOGY, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In Thousands, Except Per Share Data)

	<u>Three Months</u> <u>Ended</u> <u>September 30,</u>		<u>Nine Months</u> <u>Ended</u> <u>September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue:				
Service revenue	\$22,955	\$23,562	\$68,335	\$73,132
Software revenue	1,044	2,385	4,330	9,339
Reimbursable expenses	1,336	1,414	4,133	4,325
Total revenue	25,335	27,361	76,798	86,796
Cost of revenue:				
Project and personnel costs	13,801	14,185	44,493	45,574
Software costs	-	1,441	-	5,079
Reimbursable expenses	1,336	1,414	4,133	4,325
Total cost of revenue	15,137	17,040	48,626	54,978
Gross profit	10,198	10,321	28,172	31,818
Operating expenses:				
Selling, general and administrative	8,045	10,312	27,187	29,231

Executive officer severance	-	816	-	4,187
Merger related transaction costs	2,744	-	4,348	-
Consent solicitation expense	-	-	-	666
Contract termination expense	-	-	-	1,125
Change in fair value of contingent earnout consideration	-	(856)	-	(252)
Depreciation and amortization	627	782	1,895	2,376
Total operating expenses	11,416	11,054	33,430	37,333
Operating income (loss)	(1,218)	(733)	(5,258)	(5,515)
Other expense, net	68	(33)	241	200
(Loss) income before income taxes	(1,286)	(700)	(5,499)	(5,715)
Tax provision (benefit)	20	(528)	227	(1,996)
Net loss	<u>\$ (1,306)</u>	<u>\$ (172)</u>	<u>\$ (5,726)</u>	<u>\$ (3,719)</u>
Comprehensive loss:				
Currency translation adjustments	(2)	23	(65)	30
Total comprehensive loss	<u>\$ (1,308)</u>	<u>\$ (149)</u>	<u>\$ (5,791)</u>	<u>\$ (3,689)</u>
Net loss per share:				
Basic net loss per share of common stock	<u>\$ (0.09)</u>	<u>\$ (0.01)</u>	<u>\$ (0.40)</u>	<u>\$ (0.28)</u>
Diluted net loss per share of common stock	<u>\$ (0.09)</u>	<u>\$ (0.01)</u>	<u>\$ (0.40)</u>	<u>\$ (0.28)</u>
Shares used in computing basic net loss per share of common stock	<u>14,620</u>	<u>13,924</u>	<u>14,423</u>	<u>13,497</u>
Shares used in computing diluted net loss per share of common stock	<u>14,620</u>	<u>13,924</u>	<u>14,423</u>	<u>13,497</u>

See notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)

EDGEWATER TECHNOLOGY, INC. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,726)	\$ (3,719)
Adjustments to reconcile net loss to net cash used in operating activities, excluding the impact of acquisitions:		
Depreciation and amortization	1,893	2,384
Share-based compensation expense	346	889
Deferred income taxes	-	(2,758)
Change in fair value of contingent earnout consideration	-	(252)
Accretion of contingent earnout consideration	-	295
Changes in operating accounts, net of acquisition:		
Accounts receivable	(4,067)	5
Prepaid expenses and other current assets	(912)	45
Accounts payable	818	(181)
Accrued liabilities and other liabilities	(285)	(2,744)
Deferred revenue	611	246
Net cash used in operating activities	<u>(7,322)</u>	<u>(5,790)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(190)	(116)
Net cash used in investing activities	<u>(190)</u>	<u>(116)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from employee stock plans and stock option exercises	2,552	4,100
Purchase of treasury stock	(948)	-
Payment of contingent earnout consideration	-	(5,189)
Net cash provided by (used in) financing activities	<u>1,604</u>	<u>(1,089)</u>
Effects of exchange rates on cash	(46)	98
Net decrease in cash, cash equivalents and restricted cash	(5,954)	(6,897)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	15,398	19,693
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	<u>\$ 9,444</u>	<u>\$ 12,796</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes	<u>\$ 110</u>	<u>\$ 409</u>
Issuance of restricted stock awards	<u>\$ -</u>	<u>\$ 108</u>

[Table of Contents](#)

EDGEWATER TECHNOLOGY, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION:

Edgewater Technology, Inc. helps the C-suite drive transformational change through its unique selection of business and technology services and channel-based solutions.

Classic consulting disciplines (such as business advisory, process improvement, organizational change management, M&A due diligence, and domain expertise) are blended with technical services (such as digital transformation, technical roadmaps, data and analytics services, custom development and system integration) to help organizations leverage investments in legacy IT assets to create new digital business models.

The Company delivers product based consulting in both the Enterprise Performance Management ("EPM") and Enterprise Resource Planning ("ERP") areas both on premise and in the cloud. Within the EPM offering, our Oracle channel, Edgewater Ranzal, provides Business Analytics solutions leveraging Oracle EPM, Business Intelligence ("BI") and Big Data technologies. Within the ERP offering, our Microsoft channel, Edgewater Fullscope, delivers Dynamics AX ERP, Business Intelligence and CRM solutions primarily in the manufacturing space.

On November 1, 2018 (the "Effective Date"), 9374-8572 Delaware Inc., a Delaware corporation ("Merger Sub") and a wholly owned subsidiary of Alithya Group inc., a newly-formed Quebec corporation ("New Alithya"), merged with and into Edgewater Technology, Inc., a Delaware corporation ("Edgewater"), with Edgewater surviving as a wholly-owned subsidiary of New Alithya (the "Merger"). The Merger was effected pursuant to the Arrangement Agreement, dated as of March 15, 2018, as amended by Amendment No. 1 thereto dated as of September 10, 2018 and Amendment No. 2 thereto dated as of October 17, 2018 (as so amended, the "Arrangement Agreement"), among Alithya Group Inc., a Quebec corporation ("Alithya"), New Alithya, Merger Sub and Edgewater. On the Effective Date, each of Alithya and Edgewater became a wholly-owned subsidiary of New Alithya in accordance with the Arrangement Agreement and an arrangement approved by Superior Court of Quebec (the "Arrangement") and Edgewater was renamed "Alithya USA, Inc."

Pursuant to the terms of the Arrangement Agreement, upon the completion of the Merger, each issued and outstanding share of common stock, U.S.\$0.01 par value per share, of Edgewater ("Edgewater Common Stock") was converted into the right to receive 1.1918 fully-paid and nonassessable shares of New Alithya Class A subordinate voting stock, no par value ("New Alithya Subordinate Voting Shares"), rounded up to the nearest whole New Alithya Subordinate Voting Share. In addition, on October 19, 2018, the Edgewater Board of Directors declared a special cash dividend in the amount of U.S.\$1.15 per share of Edgewater Common Stock payable on or around November 9, 2018 to Edgewater's stockholders of record at the close of business on October 31, 2018. Due to the contingent nature of the Edgewater special cash dividend, Edgewater Common Stock traded with "due bills" representing an assignment of the right to receive the special cash dividend during the period from October 30, 2018 until the close of trading on November 1, 2018. Edgewater stockholders who sold their shares through NASDAQ on or after October 30, 2018 until the closing of trading on November 1, 2018 also sold their entitlement to the special cash dividend to the respective purchasers of shares.

On the Effective Date, each common share, no par value ("Alithya Common Shares"), of Alithya and each multiple voting common share, no par value ("Alithya Multiple Voting Shares" and, together with Alithya Common Shares, "Alithya Shares"), of Alithya then issued and outstanding were cancelled and automatically converted into the right to receive one newly issued New Alithya Subordinate Voting Share and one newly issued Class B multiple voting share, no par value ("New Alithya Multiple Voting Shares" and, together with New Alithya Subordinate Voting Shares, "New Alithya Shares"), of New Alithya, respectively. On the Effective Date, the former stockholders of Edgewater and the former shareholders of Alithya were issued approximately 40% and 60% of the total number New Alithya Shares on a fully-diluted basis, respectively (excluding the New Alithya Subordinate Voting Shares issued to investors in Alithya's private placement that closed on October 30, 2018). However, because New Alithya Multiple Voting Shares were issued only to those former Alithya shareholders which previously held Alithya Multiple Voting Shares, the former stockholders of Edgewater and the former shareholders of Alithya received on the Effective Date approximately 16% and 84% of the total voting power of the total New Alithya Shares then issued, respectively (excluding the New Alithya Subordinate Voting Shares issued to investors in Alithya's private placement that closed on October 30, 2018).

The issuance of New Alithya Subordinate Voting Shares in connection with the Arrangement was registered under the Securities Act of 1933, as amended, pursuant to New Alithya's registration statement on Form F-4 (File No. 333-227310) filed with

[Table of Contents](#)

the Securities and Exchange Commission (the "SEC") and declared effective on September 27, 2018. The prospectus/proxy statement dated September 28, 2018 (the "Prospectus/Proxy Statement") and the supplement thereto dated October 23, 2018 (the "Supplement"), as filed under the Registration Statement, contains additional information about the Merger and the Arrangement.

The New Alithya Subordinate Voting Shares have been approved for listing, on the Nasdaq Capital Market and on the Toronto Stock Exchange under the symbol "ALYA". The trading of the New Alithya Subordinate Voting Shares commenced on the Nasdaq Capital Market and the

In connection with the completion of the Arrangement, New Alithya received binding agreements from certain former Edgewater stockholders and Alithya shareholders not to sell their New Alithya Subordinate Voting Shares or New Alithya Multiple Voting Shares for a minimum period of 12 months following the Effective Date, without receiving New Alithya's prior written consent. Those former Edgewater stockholders and Alithya shareholders included Ancora Advisors, LLC (which prior to the Effective Date owned approximately 10.2% of the total outstanding Edgewater Common Stock), the directors and officers of Alithya and Edgewater remaining with the post-closing operations of New Alithya, Alithya shareholders receiving more than 5% of all of the issued and outstanding New Alithya Shares taken as a whole, at closing, and certain other employees or other persons mutually agreed upon between Alithya and Edgewater.

In this Quarterly Report on Form 10-Q (the "Form 10-Q"), we use the terms "Edgewater," "Edgewater Technology," "we," "our Company," "the Company," "our" and "us" to refer to Edgewater Technology, Inc. and its wholly-owned subsidiaries, which are described in our 2017 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on March 16, 2018 (the "2017 Form 10-K").

2. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared by Edgewater pursuant to the rules and regulations of the SEC regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to ensure the information presented is not misleading.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (which were of a normal, recurring nature) that, in the opinion of management, are necessary to present fairly our financial position, results of operations and cash flows as of and for the interim periods presented. All intercompany transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2017 Form 10-K.

The results of operations for the three- and nine-months ended September 30, 2018 are not necessarily indicative of the results to be expected for any future period or the full fiscal year. Our revenue and earnings may fluctuate from quarter-to-quarter based on factors within and outside our control, including variability in demand for information technology professional services, the length of the sales cycle associated with our service offerings, the number, size and scope of our projects and the efficiency with which we utilize our employees.

Other comprehensive loss consists of net loss plus or minus any currency translation adjustments.

3. REVENUE RECOGNITION:

As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), which impacts the timing of when certain types of revenue will be recognized. Revenues are recognized when we satisfy a performance obligation by transferring goods or services promised in a contract to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those goods and services. Performance obligations in our contracts represent distinct or separate service or product streams that we provide to our customers. The Company has adopted the standard using the modified retrospective approach. The standard was applied to all open contracts as of the date of adoption. The Company did not recognize any cumulative catch-up adjustment in connection with the adoption of this standard.

We evaluate our revenue contracts with customers based on the five-step model under ASC 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

The Company's contracts with customers contain performance obligations related to the performance of professional services (in the form of time and materials, fixed fee or retainer based contracts), the delivery of software and/or the performance of maintenance services. The Company separately evaluates all performance obligations and allocates revenue based upon stand-alone selling price of the individual performance obligations.

[Table of Contents](#)

We generate the majority of our revenues by providing consulting services to our clients. Our consulting service contracts are based on one of the following types of arrangements:

- Time and expense arrangements require the client to pay us based on the number of hours worked at contractually agreed-upon rates. We recognize revenue for these arrangements over time based on hours incurred and contracted rates. Revenue recognition over time is based on the enforceable right to payment.
- Fixed fee arrangements require the client to pay a pre-established fee in exchange for a predetermined set of professional services. We recognize revenue for these arrangements over time based on the proportional performance (using a hours-based input method) related to individual performance obligations within each arrangement. Revenue recognition over time is based on the enforceable right to payment.
- Retainer based arrangements require the client to pay a recurring fee in exchange for a monthly recurring service (typically support). We recognize revenue for these arrangements over time (using a hours-based input method). Revenue recognition over time is based on customer simultaneously receiving and consuming the benefit of the services provided.

We generate software revenue from the resale of certain third-party off-the-shelf software and maintenance. The majority of the software sold by

the Company is delivered electronically. For software that is delivered electronically, we consider transfer of control to have occurred when the customer either (a) takes possession of the software via a download (that is, when the customer takes possession of the electronic data on its hardware), or (b) has been provided with access codes that allow the customer to take immediate possession of the software on its hardware pursuant to an agreement or purchase order for the software. In all instances, the resale of third-party software and maintenance is recorded on a net basis. Company created software, and the associated maintenance, is reported on a gross basis, however it is immaterial in all periods presented.

Third party software and maintenance revenue are recognized upon delivery of the software, as all related warranty and maintenance is performed by the primary software vendor and not the Company.

The Company enters into arrangements with multiple performance obligations which typically include software, post-contract support (or maintenance), and consulting services. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company has determined standalone selling price for each of the performance obligations in connection with our evaluation of arrangements with multiple performance obligations. The Company has established standalone selling price for consulting services based on a stated and consistent rate per hour range in standalone transactions. The Company has established standalone selling price for software through consistent stated rates for software components. The Company has established standalone selling price for maintenance based on observable prices for standalone renewals.

Unfulfilled performance obligations represent the remaining contract transaction prices allocated to the performance obligations that are unsatisfied, or partially unsatisfied, and therefore revenues have not yet been recorded. Unfulfilled performance obligations primarily consist of the remaining fees not yet recognized under our proportional performance method for our fixed fee arrangements. The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2018 was \$2.8 million and is expected to be recognized within the next twelve months. For time and expense arrangements, the Company has elected the practical expedient not to disclose transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations for which we recognize revenue in accordance with paragraph 606-10-55-18. Revenue from these performance obligations is expected to be recognized within the next twelve months.

Contract liabilities are defined as liabilities incurred when we have received consideration from a client but have not yet performed the agreed upon services. This may occur when we receive advance billings before the performance of a support contract, billings in advance of service performed in connection with a fixed price arrangement, or occasional pre-billing of services to be performed under a time and materials contract. The contract liability balance was \$2.8 million and \$2.1 million as of September 30, 2018 and December 31, 2017, respectively.

The Company's standard payment terms are 30 days from invoice date. Customer prepayments, even if nonrefundable, are deferred (classified as deferred revenue) and recognized over future periods as services are performed.

The Company routinely assesses the exposure associated with the potential for returns and refunds. Historic results support the conclusion that returns and refunds are insignificant, however should such concessions be deemed necessary the reserve would be established in the period in which the item was identified.

[Table of Contents](#)

The following tables further depict the disaggregation of revenue for the three- and nine-month periods ended September 30, 2018. The information included in the disaggregation of revenue tables below have been presented in accordance with the standards set forth in ASC 606 for the three- and nine-month periods ended September 30, 2018.

Three-Months Ended September 30, 2018

	Service (1)	Software	Total
Revenue by Reporting Unit:			
ERP	\$ 11,933	\$ 1,059	\$12,992
EPM	12,001	(8)	11,993
Classic Consulting	357	(7)	350
Consolidated revenue	<u>\$ 24,291</u>	<u>\$ 1,044</u>	<u>\$25,335</u>
Revenue by Contract Type:			
Time and materials	20,280	-	20,280
Fixed price	1,675	-	1,675
Retainer	1,000	-	1,000
Software	-	1,044	1,044
Expense	1,336	-	1,336
Consolidated revenue	<u>\$ 24,291</u>	<u>\$ 1,044</u>	<u>\$25,335</u>
Revenue Recognition			
Point in time	-	1,044	1,044
Over time	24,291	-	24,291
Consolidated revenue	<u>\$ 24,291</u>	<u>\$ 1,044</u>	<u>\$25,335</u>

Nine-Months Ended September 30, 2018

	Service (1)	Software	Total
Revenue by Reporting Unit:			
ERP	\$ 35,077	\$ 4,420	\$39,497

EPM	35,086	(16)	35,070
Classic Consulting	2,305	(74)	2,231
Consolidated revenue	<u>\$ 72,468</u>	<u>\$ 4,330</u>	<u>\$76,798</u>
Revenue by Contract Type:			
Time and materials	59,389	-	59,389
Fixed price	5,465	-	5,465
Retainer	3,481	-	3,481
Software	-	4,330	4,330
Expense	4,133	-	4,133
Consolidated revenue	<u>\$ 72,468</u>	<u>\$ 4,330</u>	<u>\$76,798</u>
Revenue Recognition			
Point in time	-	4,330	4,330
Over time	72,468	-	72,468
Consolidated revenue	<u>\$ 72,468</u>	<u>\$ 4,330</u>	<u>\$76,798</u>

(1) Service revenue includes both service and the corresponding reimbursable expense revenue.

Adoption of the new revenue recognition standard did not have a meaningful impact on the Company's consolidated balance sheet. The Company has not made any significant changes to the outstanding contracts. The Company has not changed the method of recording or presenting accounts receivable or deferred revenue. The Company did not incur or capitalize any amounts in connection with the cost to obtain customer contracts nor did the Company record any contract assets in connection with our contracts with customers. During the three- and nine-month periods ended September 30, 2018, the Company recognized \$925 thousand and \$2.3 million of service revenue that was recorded and presented as deferred revenue in prior periods.

The Company, under the standards set forth in ASC 606 has presented software revenue on a net basis for the three- and nine-month period ended September 30, 2018. This represents a change from the presentation basis on the previous revenue recognition guidance. There have been no meaningful changes to the structure of the software contracts during the current quarter, however the assessment of gross versus net now relies heavily on the concept of control and therefore the Company has concluded that net presentation is appropriate.

[Table of Contents](#)

The table below presents software revenue in accordance with ASC 605 for the three- and nine-month periods ended September 30, 2018. No other financial statement line items were affected by the adoption of ASC 606.

	Three-month period ended September 30, 2018
Comparable Software Revenue:	
Software Revenue	\$ 2,346
Software Expense	1,302
Software Gross Margin	<u>\$ 1,044</u>
	Nine-month period ended September 30, 2018
Comparable Software Revenue:	
Software Revenue	\$ 9,310
Software Expense	4,980
Software Gross Margin	<u>\$ 4,330</u>

The Company has elected to make the following accounting policy elections through the adoption of the following practical expedients:

Right to Invoice - Where applicable, the Company will recognize revenue from a contract with a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date and the amount to which the entity has a right to invoice.

Significant Financing Component - The Company will not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

There are also certain considerations related to internal control over financial reporting that are associated with implementing Topic 606. The Company has evaluated its internal control framework over revenue recognition and designed and implemented the appropriate internal controls to enable the preparation of financial information and obtain and disclose the information required under Topic 606. This evaluation did not result in any material changes to the Company's existing internal control framework over revenue recognition.

4. SHARE-BASED COMPENSATION:

Share-based compensation expense under all of the Company's share-based plans was \$57 thousand and \$346 thousand for the three- and nine-month periods ended September 30, 2018, respectively. Share-based compensation expense under all of the Company's share-based plans was \$219 thousand and \$889 thousand for the three- and nine-month periods ended September 30, 2017, respectively.

Cash received from the employee stock purchase plan ("ESPP") and through stock option exercises was \$205 thousand and \$2.6 million during the three- and nine-month periods ended September 30, 2018, respectively. Cash received from ESPP and stock option exercises was \$313 thousand and \$4.1 million during the three- and nine-month periods ended September 30, 2017, respectively.

As of September 30, 2018, unrecognized compensation expense, net of estimated forfeitures, related to the unvested portion of all share-based compensation arrangements was approximately \$127 thousand and is expected to be recognized over a weighted-average period of 1.3 years.

The Company intends to use previously purchased treasury shares for shares issued for options, restricted share awards and ESPP purchases. Shares may also be issued from authorized but unissued share reserves.

10

[Table of Contents](#)

5. INCOME TAXES:

The Company recorded a tax provision of \$20 thousand and a tax benefit of \$(528) thousand for the three-month periods ended September 30, 2018 and 2017, respectively. The Company recorded tax provisions of \$227 thousand and \$(2.0) million for the nine-month periods ended September 30, 2018 and 2017, respectively. The reported tax (benefit) provision for the three-month periods ended September 30, 2018 and 2017, are based upon estimated quarterly effective tax rates of (1.5)% and (75.4)%, respectively. The effective tax rate, in the three-month period ended September 30, 2018, reflected our foreign income tax provisions. The effective tax rate, in the three-month period ended September 30, 2017, reflected our combined Federal and state income tax rates, foreign income tax provisions and the recognition of U.S. deferred tax liabilities for differences between the book and tax basis of goodwill. The reported tax provisions for the nine-month periods ended September 30, 2018 and 2017, are based upon estimated quarterly effective tax rates of (4.1)% and (34.9)%, respectively. The effective tax rate, in the nine-month period ended September 30, 2018, reflected our foreign income tax provisions. The effective tax rate, in the three-month period ended September 30, 2017, reflected our combined Federal and state income tax rates, foreign income tax provisions and the recognition of U.S. deferred tax liabilities for differences between the book and tax basis of goodwill.

We assess the realizability of our deferred tax assets and assess the need for a valuation allowance on an ongoing basis. The periodic assessment of the net carrying value of our deferred tax assets under the applicable accounting rules is highly judgmental. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is significant judgment involved, and our conclusion could be materially different should certain of our expectations not transpire.

When assessing all available evidence, we consider the extent to which we have generated pre-tax income or losses over the most recent three-year period to be an important piece of objective evidence. As of September 30, 2018, and December 31, 2017, the recorded deferred tax asset valuation allowance balance was \$23.0 million and \$21.7 million, respectively.

Our policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense. This policy has been consistently applied in all periods. No such amounts were recognized in the three- or nine-month periods ended September 30, 2018 or 2017. We have reviewed the tax positions taken, or to be taken, in our tax returns for all tax years currently open to examination by a taxing authority. We have identified no uncertain tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the twelve months ending September 30, 2019. We remain subject to examination until the statute of limitations expires for each respective tax jurisdiction.

The Company adopted the Accounting Standards Update related to stock-based compensation during the nine-month period ended September 30, 2017. This adoption had an impact on the tax treatment for stock option exercises during the nine-months ended September 30, 2017 (as well as a cumulative adjustment for prior period activity). In connection with the adoption of this standard, all excess tax benefits and tax deficiencies will be recognized in the statement of comprehensive income in the period in which they occur. The Company recognized \$306 thousand and \$786 thousand of tax expense related to stock option exercises in the nine-month periods ended September 30, 2018 and 2017, respectively, however, because the Company is in a full valuation allowance position, no benefit was taken in the consolidated financial statements. During the nine-month period ended September 30, 2017, the Company recorded a \$1.4 million cumulative adjustment to retained earnings to present the impact of prior period activity in accordance with the adopted standard.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA changed many aspects of U.S. corporate income taxation and included reduction of the corporate income tax rate from 35% to 21% , implementation of a territorial tax system and imposition of a tax on deemed repatriated earnings of foreign subsidiaries. The TCJA was effective as of December 31, 2017 and at that time we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. As of September 30, 2018, we have not completed our accounting for the tax effects of the TCJA nor have we recorded any adjustments during the quarter ended September 30, 2018. We will continue to assess our provision for income taxes as future guidance is issued, but do not currently anticipate significant revisions will be necessary. Any such revisions will be treated in accordance with the one year measurement period guidance outlined in Staff Accounting Bulletin No. 118. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the TCJA. Subsequent to September 30, 2018, the Company completed the accounting for the tax effects of the TCJA and no changes to prior amounts were recorded.

11

[Table of Contents](#)**6. GOODWILL AND INTANGIBLE ASSETS:**

There have been no changes to the Company's goodwill balance during 2018. Our annual goodwill and intangible assets measurement date is December 2. The Company continuously evaluates for any triggering events and no such events have occurred during the three- or nine-month periods ended September 30, 2018.

We amortize our intangible assets that have finite lives using either the straight-line method or based on estimated future cash flows to approximate the pattern in which the economic benefit of the asset will be utilized. Amortization expense was \$561 thousand and \$1.7 million during the three- and nine-month periods ended September 30, 2018, respectively. Amortization expense was \$699 thousand and \$2.1 million during the three- and nine-month periods ended September 30, 2017, respectively. This amortization expense relates to certain non-competition covenants and customer lists, which expire at various times through 2021.

Estimated annual amortization expense of our intangible assets (including amortization expense associated with capitalized software costs) for the current year and the following five years ending December 31, is as follows:

	Amortization Expense
	(In Thousands)
2018	\$ 2,240
2019	\$ 1,713
2020	\$ 1,057
2021 and beyond	\$ 565

7. ACCRUED EXPENSES AND OTHER LIABILITIES:

Accrued liabilities as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
	(In Thousands)	
Accrued bonuses	\$ 3,006	\$ 5,590
Accrued payroll related liabilities	1,531	3,277
Accrued vacation	2,818	2,497
Accrued commissions	1,047	825
Accrued software expense	545	675
Accrued contractor fees	581	346
Accrued professional service fees	3,227	341
Deferred rent	50	64
Income tax related accruals	331	189
Other accrued expenses	1,308	1,180
Total	\$ 14,444	\$ 14,984

8. NET LOSS PER SHARE:

A reconciliation of net income and weighted average shares used in computing basic and diluted net loss per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In Thousands, Except Per Share Data)			
Basic net loss per share:				
Net loss applicable to common shares	\$ (1,306)	\$ (172)	\$ (5,726)	\$ (3,719)
Weighted average common shares outstanding	14,620	13,924	14,423	13,497
Basic net loss per share of common stock	\$ (0.09)	\$ (0.01)	\$ (0.40)	\$ (0.28)

[Table of Contents](#)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In Thousands, Except Per Share Data)			

Diluted net loss per share:

Net loss applicable to common shares	\$ (1,306)	\$ (172)	\$ (5,726)	\$ (3,719)
Weighted average common shares outstanding	14,620	13,924	14,423	13,497
Dilutive effects of stock options	-	-	-	-
Weighted average common shares, assuming dilutive effect of stock options	14,620	13,924	14,423	13,497
Diluted net loss per share of common stock	\$ (0.09)	\$ (0.01)	\$ (0.40)	\$ (0.28)

Share-based awards, inclusive of all grants made under the Company's equity plans, for which either the stock option exercise price or the fair value of the restricted share award exceeds the average market price over the period, have an anti-dilutive effect on earnings per share, and accordingly, are excluded from the diluted computations for all periods presented. Had such shares been included, shares for the diluted computation would have increased by approximately 465 thousand shares and 465 thousand shares in the three- and nine-month periods ended September 30, 2018, respectively. Had such shares been included, shares for the diluted computation would have increased by approximately 542 thousand shares and 148 thousand shares in the three- and nine-month periods ended September 30, 2017, respectively. As of September 30, 2018 and 2017, there were approximately 766 thousand and 1.8 million share-based awards outstanding, respectively, under the Company's equity plans. Options to purchase 79 thousand and 534 thousand shares of common stock that were outstanding during the three months ended September 30, 2018 and September 30, 2017, respectively, were not included in the computation of diluted net loss per share due to the reported periodic loss. Options to purchase 118 thousand and 760 thousand shares of common stock that were outstanding during the nine months ended September 30, 2018 and September 30, 2017, respectively, were not included in the computation of diluted net loss per share due to the reported periodic loss.

9. STOCK REPURCHASE PROGRAM:

In December 2007, our Board of Directors (the "Board") authorized a stock repurchase program for up to \$5.0 million of common stock on the open market or through privately negotiated transactions from time-to-time through December 31, 2008 (the "Stock Repurchase Program"). The Board subsequently amended the Stock Repurchase Program, authorizing both an increase to and an extension of the Stock Repurchase Program. The Stock Repurchase Program, as amended, had a maximum purchase value of shares of \$23.1 million (the "Purchase Authorization") and expired on September 21, 2018.

The timing and amount of the purchases was dependent upon market conditions, securities law considerations and other factors. The Stock Repurchase Program did not obligate the Company to acquire a specific number of shares in any period and could have been modified, suspended, extended or discontinued at any time, without prior notice.

The Company repurchased 151 thousand shares at an aggregate price of \$948 thousand during the nine-month period ended September 30, 2018. The Company did not repurchase any shares of common stock during the three-month period ended September 30, 2018 or the three- and nine-month periods ended September 30, 2017.

10. REVOLVING LINE OF CREDIT:

In September 2013, the Company entered into a secured revolving credit facility (the "Credit Facility"). The Credit Facility was modified through an amendment in December 2015, which increased the borrowing base to \$15 million (from the previous \$10 million) with an additional accordion feature that allows the Company to request an additional \$5.0 million as needed, extending the total credit facility borrowing capacity to \$20 million over its three-year term. The Credit Facility is collateralized by substantially all assets of the Company and its domestic subsidiaries, and is subject to normal financial covenants.

In October 2018, the Company entered into an amendment, which amended certain terms of the Credit Facility. The amendment waived the restrictions on change of control of Edgewater in the Loan Agreement to the extent required to permit the acquisition of all of the outstanding stock of Edgewater by New Alithya.

The amendment modified certain provisions of the Credit Facility, including, among other things, (i) the right of Edgewater obtain up to \$7.0 million of additional Revolving Advances provided that all such additional Revolving Advances shall be deposited into the blocked deposit account maintained by Edgewater at Citizens, (ii) Edgewater's agreement that all funds held in such blocked account (including the \$5.0 million of funds now held in such blocked account) will constitute cash collateral for all obligations of Edgewater to Citizens under the Loan Agreement, and (iii) Edgewater's right to withdraw the funds in the blocked account will be contingent on the repayment in full of all obligations then outstanding under the Loan Agreement.

[Table of Contents](#)

The Company had drawn down \$5.0 million of this balance as of September 30, 2018. Subsequent to September 30, 2018, the Company drew down the additional \$7.0 million allowed under the Credit Facility. The Company was not in compliance with one of its loan covenants as of September 30, 2018, however, the full \$12.0 million was paid off and the Credit Facility closed in November 2018.

11. RESTRICTED CASH:

In May 2018, the Company entered into a minimum cash balance agreement in connection with the existing Credit Facility (see Note 10). The Company has presented \$5.0 million as restricted cash as of September 30, 2018 as this cash has been specifically restricted to serve as collateral for the Company's outstanding balance under the Credit Facility agreement. No such amounts were restricted as of December 31, 2017.

12. GEOGRAPHIC INFORMATION

Total revenue to unaffiliated customers by geographic area were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
United States	\$ 23,296	\$ 24,488	\$ 68,615	\$ 76,842
Canada	1,468	2,218	5,425	7,365
Other International	571	655	2,758	2,589
Total revenue	<u>\$ 25,335</u>	<u>\$ 27,361</u>	<u>\$ 76,798</u>	<u>\$ 86,796</u>

Substantially all of the Company's long-lived assets are located within the United States.

13. SEGMENT INFORMATION

In accordance with the provisions of Topic 280, Segment Reporting to the FASB ASC ("ASC 280"), the Company determined that it has three operating segments (Enterprise Performance Management ("EPM"), Enterprise Resource Planning ("ERP") and Classic Consulting).

The EPM segment provides Business Analytics solutions leveraging Oracle EPM, BI and Big Data technologies. The ERP segment delivers Dynamics AX ERP, Business Intelligence and CRM solutions, primarily in the manufacturing space. The Classic Consulting segment provides business advisory services that are blended with technical services to help organizations leverage investments in legacy IT assets to create new digital business models.

The Company's chief operating decision maker evaluates performance using several factors, of which the primary financial measures are revenue and operating segment operating income. The accounting policies of the operating segments are the same as those described in Note 2 "Summary of Significant Accounting Policies".

Segment information for the three-month periods ended September 30, 2018 and 2017 were as follows:

	<u>EPM</u>	<u>ERP</u>	<u>Classic Consulting</u>	<u>Corporate</u>	<u>Consolidated</u>
	(In Thousands)				
September 30, 2018					
Total revenue	\$11,993	\$12,992	\$ 350	\$ -	\$ 25,335
Operating income (loss)	\$ 896	\$ 2,067	\$ 10	\$ (4,191)	\$ (1,218)
Depreciation and amortization expense	\$ 446	\$ 171	\$ -	\$ 10	\$ 627
September 30, 2017					
Total revenue	\$12,273	\$12,927	\$ 2,161	\$ -	\$ 27,361
Operating income (loss)	\$ 166	\$ 1,599	\$ (471)	\$ (2,027)	\$ (733)
Depreciation and amortization expense	\$ 559	\$ 200	\$ -	\$ 25	\$ 784

14

[Table of Contents](#)

Segment information for the nine-month periods ended September 30, 2018 and 2017 were as follows:

	<u>EPM</u>	<u>ERP</u>	<u>Classic Consulting</u>	<u>Corporate</u>	<u>Consolidated</u>
	(In Thousands)				
September 30, 2018					
Total revenue	\$35,070	\$39,497	\$ 2,231	\$ -	\$ 76,798
Operating income (loss)	\$ 194	\$ 5,731	\$ (760)	\$ (10,423)	\$ (5,258)
Depreciation and amortization expense	\$ 1,342	\$ 514	\$ -	\$ 37	\$ 1,893
September 30, 2017					
Total revenue	\$39,271	\$38,881	\$ 8,644	\$ -	\$ 86,796
Operating income (loss)	\$ 1,689	\$ 5,138	\$ (404)	\$ (11,938)	\$ (5,515)
Depreciation and amortization expense	\$ 1,682	\$ 598	\$ -	\$ 104	\$ 2,384

The Company is not disclosing total assets for each of its reportable segments, as total assets by reportable segment is not a key metric provided to the Company's chief operating decision maker.

15

[Table of Contents](#)